



School district consolidation in Montana
by Paul Richard Stremick

A dissertation submitted in partial fulfillment of the requirements for the degree of Doctor of Education
Montana State University

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Abstract:

The problem addressed in this study was the appropriate funding for public education in Montana during the past decade. The purpose was to define and develop a model which could be used to investigate the alternative of high school consolidation as a means for local taxpayers in Montana to save money, and for the state to reallocate school funding dollars back into the funding formula.

In order to create financial data that could be used to explore the fiscal implications of high school consolidation in Montana, a consolidation model was developed. The model was guided by the established parameters: (1) the number of high school districts in Montana would be reduced by approximately 10%; (2) the consolidated high school's enrollment would increase by no more than 50 students; (3) districts considered for consolidation were in close proximity to the receiving school district-isolated high school districts were not consolidated; (4) all possible consolidations within the size and distance limitations were explored; (5) an existing K-12 school district would not be divided to allow consolidation; and (6) the level of funding, or percent of the maximum budget, would remain constant for the receiving district.

The data generated by the model in this study revealed a number of items. First, in every scenario the state spent less money in the form of state aid by consolidating high school districts. The state spent an average of \$122,085.49 less per consolidation. Secondly, in every case but one, local taxpayers saved money by consolidating high school districts.

The state would recoup approximately \$3.7 million dollars per biennium from the consolidations. This money could be reinvested into the funding formula which would create a higher level of funding for K-12 public education without raising taxes.

By applying the data produced in this study, it is apparent that school consolidation under the guidelines specified in this model could be a viable alternative for increasing funding for K-12 public education without raising taxes. At the very least, the data produced could give local and state level decision makers the necessary data to make an informed decision on school consolidation.

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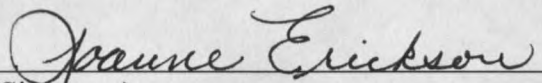
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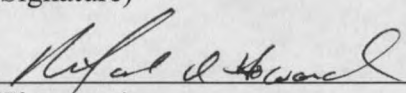
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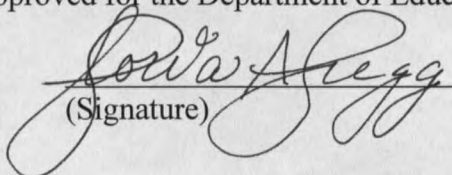
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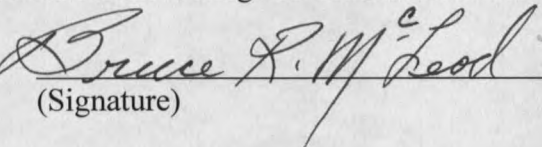
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TABLE OF CONTENTS

1. INTRODUCTION	1
STATEMENT OF PROBLEM	5
THE PURPOSE	7
SIGNIFICANCE OF THE STUDY	7
DEFINITION OF TERMS	11
LIMITATIONS OF THE STUDY	13
SUMMARY	13
2. LITERATURE REVIEW	15
INTRODUCTION	15
HISTORICAL OVERVIEW OF SCHOOL FUNDING	15
A National Historical Overview of School Funding	15
A Montana Historical Overview of School Funding	18
SCHOOL CONSOLIDATION OVERVIEW	23
A National Overview of School Consolidation	23
A Montana Overview of School Consolidation	29
GEOGRAPHICS/DEMOGRAPHICS OF MONTANA	32
THE USE OF A MODEL	33
SCHOOL SIZE	34
SUMMARY	37
3. RESEARCH METHODOLOGY	39
INTRODUCTION	39
DATA SOURCES	40
DEVELOPMENT OF THE MODEL	49
SELECTION PROCESS	51
METHODOLOGY	55
SUMMARY	61
4. RESULTS	63
INTRODUCTION	63
RESULTS OF DATA ANALYSIS	64
DISCUSSION OF RESULTS	65
SUMMARY	70
5. CONCLUSIONS	72
INTRODUCTION	72
CONCLUSIONS	73
DISCUSSION OF BROADER IMPLICATIONS	76
SUMMARY	77
IMPLICATIONS FOR FURTHER RESEARCH	78
REFERENCES CITED	81
APPENDICES	87

TABLE OF CONTENTS - CONTINUED

APPENDIX A	88
Preliminary Budget Data Sheets	89
APPENDIX B	149
Budget Worksheets	150
APPENDIX C	157
Microsoft Excel Spreadsheet	158
APPENDIX D	165
General Fund Summary Reports	166

LIST OF TABLES

Table	Page
1. Enrollment Figures as Reported by the Office of Public Instruction (2000a)	31
2. High School Enrollment Figures by Size 1996-97. Source: OPI Enrollments as of October 7, 1996	53
3. Distances between School Districts	54
4. High School Districts with an Enrollment of 50 or Fewer and 25 or Fewer Miles to the Nearest High School District	54
5. Cross Reference of Data from the Preliminary Budget Data Sheets and the Spreadsheet	57
6. Comparison of Figures Before and After Consolidating High School Districts	66

LIST OF FIGURES

Figure	Page
1. Montana School Funding for the General Fund	3
2. Comparison Between the Increase in Funding for K-12 Education in Montana and the Increase in the CPI-U During the Last Decade.. ..	4
3. Federal Funds for K-12 Education as Reported by the National Center for Education Statistics	17
4. Enrollment Figures as Reported by the Office of Public Instruction (2000a)	31
5. Step by Step Process for Entering and Creating Data for the Consolidated District.	60

ABSTRACT

The problem addressed in this study was the appropriate funding for public education in Montana during the past decade. The purpose was to define and develop a model which could be used to investigate the alternative of high school consolidation as a means for local taxpayers in Montana to save money, and for the state to reallocate school funding dollars back into the funding formula.

In order to create financial data that could be used to explore the fiscal implications of high school consolidation in Montana, a consolidation model was developed. The model was guided by the established parameters: (1) the number of high school districts in Montana would be reduced by approximately 10%; (2) the consolidated high school's enrollment would increase by no more than 50 students; (3) districts considered for consolidation were in close proximity to the receiving school district--isolated high school districts were not consolidated; (4) all possible consolidations within the size and distance limitations were explored; (5) an existing K-12 school district would not be divided to allow consolidation; and (6) the level of funding, or percent of the maximum budget, would remain constant for the receiving district.

The data generated by the model in this study revealed a number of items. First, in every scenario the state spent less money in the form of state aid by consolidating high school districts. The state spent an average of \$122,085.49 less per consolidation. Secondly, in every case but one, local taxpayers saved money by consolidating high school districts.

The state would recoup approximately \$3.7 million dollars per biennium from the consolidations. This money could be reinvested into the funding formula which would create a higher level of funding for K-12 public education without raising taxes.

By applying the data produced in this study, it is apparent that school consolidation under the guidelines specified in this model could be a viable alternative for increasing funding for K-12 public education without raising taxes. At the very least, the data produced could give local and state level decision makers the necessary data to make an informed decision on school consolidation.

CHAPTER 1

INTRODUCTION

Since the United States Constitution makes no specific reference to education or the funding of education, the individual states reserve authority over schools and the rights and responsibilities to fund public education. Although the federal government does provide some financial support to states for public education, it is typically in the form of grants designated for specific purposes. Webb, McCarthy, and Thomas (1988) stated in their finance study, "School districts derive approximately 10% of their revenue from federal sources such as the Title Programs" (p.229). Thus, the major responsibility for funding public education rests with states and local school districts. Because no federal guidelines exist, funding schemes for public education vary from state to state and are usually based upon each state's criteria for raising and allocating revenue.

During each session of the Montana legislature, school funding emerges as a major issue and is heavily debated, typically throughout the legislative session. Due to this lengthy debate, school funding is generally one of the last issues resolved by the legislature. Some believe the money allocated to schools is based on what is left in the budget, not on what schools need to operate effectively. The issue of under-funding schools is not new. Cummings, Johnson, Kuehn, and Selvig (1999) stated in regard to school finance in Montana, "The pattern of under-funding schools was established in the beginning and it has never changed" (p. 1).

The funding of K-12 education in Montana was drastically altered after a 1988 legal decision (Helena Elementary School District No.1 et al. v. State of Montana et al.). The decision mandated the state to create a funding formula that would minimize spending disparities between school districts. Cummings, Johnson, Kuehn, and Selvig (1999) stated, "On January 13, 1988, Judge Henry Lobel handed down the court's decision . . . which would bring about dramatic changes in [Montana's] school finance" (p. 20). The funding formula (Figure 1) adopted by the Montana legislature as a result of the decision was embodied in House Bill 667 (HB 667) and is in use at the time of this writing. HB 667 mandated a yearly minimum base amount for school equity (BASE) budget as an expenditure plan for each school district which must be adopted without a vote of the people. Furthermore, HB 667 created a potential maximum budget, or cap, beyond which a district may not spend in any given year. The BASE budget is 80% of the maximum budget. Therefore, schools are to have budgets between 80% and 100% of the maximum budget after the adjustment for changes in student enrollment.

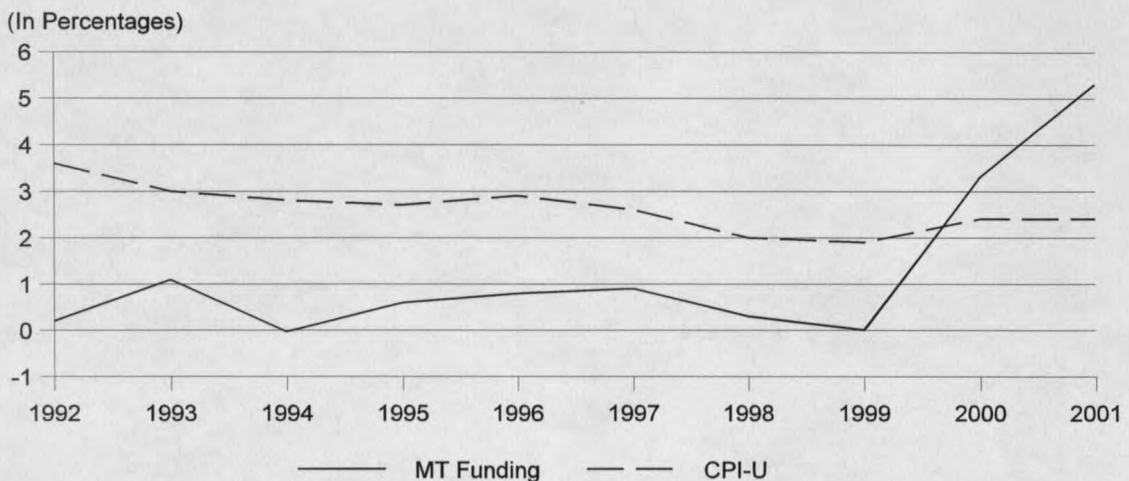
The funding mechanism is based on a formula that funds BASE budgets with a basic entitlement and a per student, or average number belonging (ANB), entitlement. The Office of Public Instruction (OPI) (2000b) reported, "Basic entitlements are \$18,540 for elementary districts and \$206,000 for high school districts. . . . The per-ANB entitlement results in an additional \$3,763 in elementary districts and \$5,015 in high school districts" (p. 1). When additional funding is allocated to public education, the entitlements are usually raised.

Figure 1. Montana School Funding for the General Fund

<u>Base Funding Program</u>	<u>Funding Sources</u>	<u>Caps & Voter Approval</u>
<p>General Fund Budget Over Maximum</p>	<p>Over-Maximum Funding District Levy</p>	<p><u>Budget Frozen at:</u> Current Budget</p> <p>Vote Required to Remain Above the Maximum</p>
<p>MAXIMUM General Fund Budget (100% Level)</p> <p>100% of Basic & Per-ANB Entitlements plus <u>up to</u> 153% of State Special Ed. Allocation plus 53% of Special Ed. CO-OP Allocation</p>	<p>Maximum Budget Funding</p> <p>District Over-BASE Levy</p>	<p><u>Budget Growth Limited To:</u> 104% of Prior Year Budget or 104% of Prior Year Budget Per Student</p> <p>A VOTE is required for any new local taxes</p>
<p>BASE Budget (80% Mandatory Level)</p> <p>80% of Basic & Per-ANB Entitlements plus up to 140% of State Special Ed. Allocation plus 40% of Special Ed. CO-OP Allocation</p> <p><u>BASIC Entitlement</u></p> <p><u>High School</u> 1999/00 - \$200,000 2000/01 - \$206,000</p> <p><u>Elementary</u> 1999/00 - \$18,000 2000/01 - \$18,540 Prorated for 7th & 8th Grade</p> <p><u>Per-ANB Entitlement</u> <u>High School & 7th & 8th Grade</u> 1998/99 - \$4,773 - \$.50 1999/00 - \$4,821 - \$.50 2000/01 - \$5,015 - \$.50 Stop Loss - 800 High School ANB</p> <p><u>Elementary</u> 1998/99 - \$3,410 - \$.20 1999/00 - \$3,529 - \$.20 2000/01 - \$3,763 - \$.20 Stop Loss - 1000 Elementary ANB</p>	<p>BASE Budget Funding</p> <p>District BASE Budget Levy <u>District Non-Levy Revenue</u> Vehicle Fees, Interest Tuition, Flat Tax, LGST, Cash Reappropriated</p> <p><u>35.3% GTB, If Eligible</u> GTB is Based on the Ratio of District's Taxable Value to the District's BASE Budget less Direct State Aid</p> <p>Direct State Aid (44.7% of the MAXIMUM)</p> <p><u>State Aid Funding Sources:</u> 40 Mill Levy Statewide School Trust Income</p> <p><u>County Aid Funding Sources:</u> 33 Mills for Elementary 22 Mills for High School</p> <p><u>Other Revenue:</u> Vehicle Fees, Federal Forest, Taylor Grazing, Misc. Revenues</p>	<p>Mandatory Budget Districts must adopt at least the BASE Budget Level</p> <p>No vote required for BASE Budget Levy</p> <p><u>Other Components:</u> October & February Enrollment Counts are used for ANB Calculation</p> <p>P.L. 81-874 Funds Moved To New Impact Aid Fund</p> <p>Prepared By: Steve Johnson Asst. Supt. For Business & Operations Bozeman Public Schools</p>

When school districts choose to operate above their BASE budgets, the funding mechanism gives local taxpayers authority to determine the outcome of requests for increased funding by voting at mill levy elections. The maximum increase in a budget per year is limited to 4% of the previous year's budget by state law, MCA 20-9-308(2). When BASE budgets are increased, additional funding comes from state taxes, since the state funds the majority of the BASE budget. In the decade of the 1990s, the state has been unwilling to prioritize substantial resources for education or raise additional revenue through increased taxes to support education. Since the early 1990s, state funding for education has not kept pace with the cost of living or the consumer price index. Bob Vogel (personal communication, March 9, 2000) from the Montana School Boards Association reported, "The average increase in spending on K-12 education in Montana was 1.2% over the last decade while the unadjusted consumer price index (CPI-U) rose 2.6% during the same period" (p. 1) (Figure 2).

Figure 2. Comparison Between the Increase in Funding for K-12 Education in Montana and the Increase in the CPI-U During the Last Decade.



Because of the state's unwillingness to raise taxes, legislators and communities need to explore other options. School consolidation is viewed as one possible option. The major objective of school consolidation is to reduce costs. Hopefully, consolidation plans also improve the educational program. In his report on consolidation, Benton (1992) stated, "Our consolidation had two overriding goals: to improve the quality of education and to give citizens more value for their taxes" (p. 2). This ideal is also supported by Howley and Theobald (1996) who stated, "Consolidation is one of those more certain eventualities . . . [because] finances and administrative convenience . . . argue against retaining small schools" (p. 47).

Statement of the Problem

The above indicates that the adequate funding of public schools in Montana has been highly debatable. The topic of appropriate funding for public education in the state of Montana during the past decade was the problem addressed in this study. Jean (1988) in his historical study of Montana school finance stated:

The 1972 Montana Constitution contains the clearest and most supportive language for education than in most of the other 49 states. This educational philosophy, however, has rarely been translated into adequate financial support for schools by the state. (p. 203)

The Montana legislature has wrestled with the dilemma of increasing school funding without raising taxes. Due to inflation and the rising costs of books, supplies and materials, coupled with declining enrollments, schools need more operational money than ever before. In a summary of Montana finance, Schwinden and Brannon (1993) stated,

"Expenditures per pupil rise as ANB declines in both elementary and high schools in Montana" (p. 32). Therefore, alternative methods to increase per student spending require investigation. Rafter, a former Montana school administrator (as cited in Schwinden & Brannon, 1993), discussed school consolidation as follows:

In a time when no new money is coming, we must develop a system that better uses the money we have. There will be some pain and some sacrifice by all of us, but in the end, greater educational opportunity for kids is worth the pain and sacrifices. (p. 35)

No simple solution for school funding shortages exists in Montana. Different approaches and ideas for funding and alternatives to increasing per student spending without raising taxes have been explored in the past. Schwinden and Brannon (1993) stated, "We could do without some of the administration, and some of the administrators that exist in Montana in 1993" (p. 45). Another opinion came from Seal and Harmon (1995) who stated, "Declining student enrollment, coupled with a dwindling tax base, provides the fiscal incentive to close or merge schools" (p. 120). This opinion was contradicted by Morton (as cited in Schwinden & Brannon, 1993) who stated that, "There simply is not a great deal of money to be saved by consolidation/unification" (p. 35).

Despite the fact that various solutions have been suggested, alternative funding strategies to support schools in Montana need continued exploration. Most of the solutions offered are not based on fact or research, making it critical that alternative school funding strategies are studied and reported. School consolidation is a method which has been used in other states, and is one alternative that needs further investigation in Montana. Jean (1998) stated, "From the perspective of saving the state's [Montana's].

general fund, it [school consolidation] would be an attractive move—and certainly this would have to be assessed statewide before one could truly decide" (p. 11).

School consolidation is more readily accepted when only high schools are consolidated and communities get to keep their elementary schools. In a report for the U.S. Department of Education, Rincones (1988) stated, "It [school consolidation] is directed toward the most problematic level of the school—the secondary level. Parents can continue to control elementary education, which is of most concern to them" (p. 3).

The Purpose

The purpose of this study was to define and develop a model that could be used to investigate the alternative of high school consolidation as a means for local taxpayers in Montana to save money, and for the state to reallocate school funding dollars back into the funding formula. The model could create a more efficient way of funding schools in Montana.

Significance of the Study

Much has been written about the consolidation of school districts in Montana and across the nation. The 1993 report, School Reorganization in Montana: A time for decision?, written by Schwinden and Brannon was based on a study commissioned and published by the Montana School Boards Association. It focused on a structural review of Montana's educational system and a review of school districts that had consolidated voluntarily. This study, School Consolidation in Montana, will contribute to prior

research that has been done on school consolidation and expand the current body of literature.

There are many areas that are affected by school consolidation. The areas are: (1) community involvement; (2) political, i.e., local control; (3) economics; (4) curriculum; (5) educational quality; and (6) finance. All the areas are equally important when making a decision about school consolidation.

Community involvement is important and essential in every school. The success of a school largely depends on community/parental involvement. In small towns the school is the center of the community. Reporting on school consolidation in Illinois, Jones (1985) stated, "The school is . . . a source of trade for local businesses and the social-cultural center for the community" (p.6). Community members perceive the school as the hub of the community.

The loss of local control is an area of concern when school consolidation is considered. The concern of adequate representation in school governance is also an issue when the school is not located in the local community. This concern can be addressed by mandating equitable representation on the new school board during and after the consolidation process.

A school has a significant impact on the local economy. Miller (1999) stated, "Schools are one service provided by local governments . . . education is the single largest expense of most local governments" (p. 676). Schools support local businesses, but they need revenue to operate. Offering alternatives to school consolidation, Berliner (1990) pointed out, "Taxpayers tend to be of two minds: they view the neighborhood

school as essential but also as a financial burden" (p. 1). Some taxpayers view the school as an important asset to the community. Jones (1985) stated, "The school is usually the largest employer, the largest depositor in the local bank" (p.6).

Curriculum is a major issue in most schools. Consolidation can be viewed a means to increase budgets in order to modernize and expand the curriculum. In reporting the results of consolidation in Oregon, Nelson (1985) stated, "Bigger schools provide a wider range of curricular and extracurricular offerings" (p. 1). However, just because a school has more curricular and extracurricular offerings does not mean students take advantage of the additional offerings. Years later, Irmsher's (1997) reflection on Oregon's consolidation argued that, "Although large schools offer a greater curricular variety, only a small percentage of students take advantage of advanced and alternative classes" (p. 2).

The quality of education should not be hampered by school consolidation. According to the parameters of this model, the maximum increase in enrollment was limited to 50 students. An increase of 50 students should not have a drastic impact on a school's effectiveness.

The financial impact of school consolidation on local taxpayers and the state is an important issue. In a dissertation submitted to Montana State University, Webber (1987) stated, "[There was a perception that] consolidation would increase taxes" (p. 40). By providing actual fiscal data, the results from this study could verify or refute that statement. Also, in a time when new resources for revenue are not available, the reallocation of current funds for education must be investigated. This is emphasized by

the action taking place in the 2001 Montana Legislature. House Bill 625 (HB 625), Interim Study of School Funding, is a bill that would create a study of school funding in Montana during the interim before the next legislative session. This study, School Consolidation in Montana, could contribute to the state's planned study in HB 625 if enacted into law.

The review of literature indicated much has been written about the advantages and disadvantages of school consolidation. It was evident that much of the literature on school consolidation was dated and limited. Dr. E. Jean (personal communication, February 14, 2000) stated:

Most of the United States faced and conducted massive consolidation over twenty years ago. At that time, there were several pieces of research speaking to the benefits/shortfalls of consolidation. Montana has supported consolidation, mostly before the 1950s. Since that time, however, not many districts have consolidated and more to the point, not much has been written about it. (p. 1)

However, the literature focused on educational quality, course offerings, community involvement, and assumed increased or decreased revenue and expenditures. Again, the literature indicated pros and cons of school consolidation but did not provide relevant fiscal data. Relevant fiscal data is another aspect of school consolidation that must be considered when making a decision about school consolidation. An informed decision on school consolidation can only be made when every aspect of school consolidation is explored. The development of a systematic method to produce accurate fiscal data on school consolidation needs to take place.

This study created a model that allows the user to investigate the fiscal implications of school consolidation. The model could be used to investigate the fiscal

implications of school consolidation for two districts, or many districts, in the state of Montana. The user of the model could be a board member, administrator, or a state legislator. Regardless of who uses the model, it will provide accurate fiscal data on school consolidation, such as the amount of money spent on state aid and local district tax. For example, two school boards from adjacent districts may use the model to investigate the fiscal impact consolidation would have on their schools.

In addition, the model will provide general fund fiscal data on the effects of school consolidation. The data provided will be a good initial step in making an informed decision about school consolidation. Financial decisions for school consolidation need no longer be based on hunches or feelings, but on data. The data will be produced by the actual consolidation scenario and the results will be relevant.

Definition of Terms

In order to understand financing of public schools in Montana, several terms must be defined. Those terms and brief definitions follow.

ANB, MCA 20-9-311 - (1) Average Number Belonging must be computed as follows: (a)

compute an average enrollment by adding a count of regularly enrolled full-time pupils who were enrolled as of the first Monday in October of the prior school fiscal year to a count of regularly enrolled pupils on February 1 of the prior school fiscal year, or the next day if those dates do not fall on a school day, and divide the sum by two; and (b) multiply the average enrollment calculated in

subsection (1)(a) by the sum of the pupil-instruction and the approved pupil-instruction-related days for the current school fiscal year and divide by 180. (2) For the purpose of calculating ANB under subsection (1), up to 7 approved pupil-instruction-related days may be included in the calculation.

BASE Budget, MCA 20-9-306(3) - The minimum general fund budget of a district,

which includes 80% of the basic entitlement, 80% of the total per-ANB entitlement, and up to 140% of the special education allowable cost payment.

Consolidation - The process used to merge two or more school districts into one new district.

GTB - Guaranteed Tax Base - This is a subsidy provided by the state to districts below the state's average taxable valuation. Its purpose is to equalize taxable valuations throughout the state.

High School - Any school with grades 9-12.

High School Consolidation - The combining of two or more high schools districts into a single high school district.

Maximum General Fund Budget, MCA 20-9-306(8) - A district's largest general fund budget, which may include 100% of the basic entitlement, 100% of the per-ANB entitlement for the district, and up to 153% of special education allowable cost payments.

Mill Levy Election - The voting process by which the constituents of a district may

increase a district's budget up to 4%, while not exceeding the maximum general fund budget.

Limitations of the Study

Because high schools are funded at a higher rate than elementary schools, this study only examines high school districts' general funds. It does not consider other sources of revenue such as impact aid, transportation funds, other miscellaneous funds, or special education funding outside of the Montana school funding formula. In fact, none of the previously mentioned funds are part of the state's funding formula for the general fund of school districts. School facilities, community factors, and educational quality are mentioned in the study but are not tested by the model.

Summary

This study defined and developed a model which could be used to investigate the alternative of high school consolidation as a means for fiscal savings to local taxpayers and to reallocate school funding dollars for the state of Montana. The model created in this study consolidated high school districts that fell within the defined parameters. The objectives of the model were to find ways to increase the amount of money the state spends per high school student within the current funding allocation and/or to realize a tax decrease to the local taxpayers.

Because any one model possesses limitations, other possible schemes to consolidate schools in an attempt to save money could be developed. However, the

development of this model and its application should provide some very useful information. This model could be used on a local or statewide basis to test the effects of financial implications for selected high school consolidations.

CHAPTER 2

LITERATURE REVIEW

Introduction

This chapter contains a national and Montana historical overview on school funding and school consolidation. The chapter also includes a geographic and demographic review of Montana, how a model may be used to explore alternatives, and a review of the relationship between school size and effectiveness.

The problem addressed in this study was the appropriate funding for public education in Montana during the past decade. The purpose was to define and develop a model which could be used to investigate the alternative of high school consolidation as a means for local taxpayers in Montana to save money, and for the state to reallocate school funding dollars back into the funding formula.

Historical Overview of School FundingA National Historical
Overview of School Funding

In providing a national historical overview of school funding Johns, Morphet and Alexander (1983) stated:

The Tenth Amendment to the Constitution of the United States provides: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the states respectively or to the people." Since the Constitution makes no specific reference to education, it has been assumed that

education is the legal responsibility of the states. (p. 323)

In essence, the federal government gives states and local governments sole authority over the funding of schools. Miller's (1999) book on government stated, "Schools are one service provided by local governments . . . education is the single largest expense of most local governments" (p. 676).

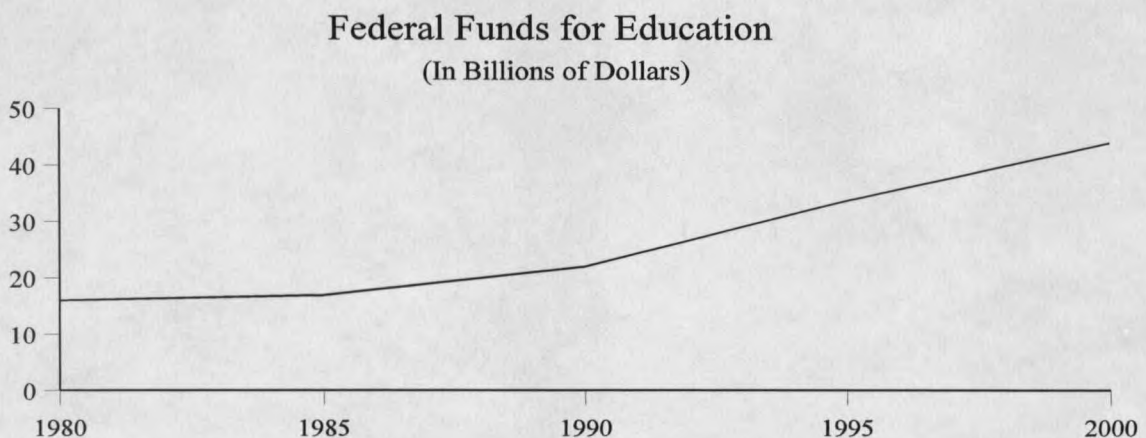
Financial support for public education predates the Constitution. Burrup, Brimley and Garfield (1996) stated, "The laws of 1642 and 1647, and the Ordinances of 1785 and 1787 are examples of their [Americans] actions to provide some important aspects of an educational program" (p. 169). The ordinances of 1785 and 1787 included land grants which reserved section 16 out of every township to support public education. The federal government increased the land grant from one section to two sections, and later increased it to four sections.

Most of the support from the federal government to help fund public education has been designated for specific purposes. Writing in their review of the history of school finance, Johns, Morphet, and Alexander (1983) pointed out, "The Elementary and Secondary Education Act of 1965 - Public Law 89-10 is by far the most important measure affecting the financing of the public schools enacted by Congress up to the present time" (p. 338). This law created five Title programs which were funded by the federal government and designed to strengthen public education. These programs have specific areas where the funds must be appropriated, e.g., safe and drug free schools and professional development in the areas of math and science. Monies received are distributed equitably among the state's schools.

Another area partially financed by the federal government is special education. This funding came into existence when the Education of the Handicapped Act - Public Law 94-142 was passed in 1972. Johns, Morphet, and Alexander (1983) stated, "The purpose of this act was to assist in the initiation, expansion, and improvement of programs and projects for the handicapped" (p. 339).

Although the federal government does provide some financial support to states for public education, it is typically in the form of grants designated for specific purposes. Webb, McCarthy, and Thomas (1988) stated, "School districts derive approximately 10% of their revenue from federal sources such as the Title Programs" (p.229). As reported by Hoffman (2000) from the National Center for Educational Statistics, federal dollars have increased in recent years (Figure 3). Even with the increase of federal dollars, major responsibility for funding public education rests with states and local school districts. Because no federal guidelines exist, funding schemes for public education vary from state to state and are usually based upon each state's criteria for raising and allocating revenue.

Figure 3. Federal Funds for K-12 Education as Reported by the National Center for Education Statistics.



A Montana Historical
Overview of School Funding

The following historical overview on funding education in Montana was derived from the work of Dr. Ernest Jean (1988), a former Montana administrator and university professor.

Initial funding for public education in Montana occurred in 1864 through the creation of the School Fund by the Montana Territorial Legislative Assembly. The Organic Act of 1864 endowed this fund through the sale of school lands. Interest accrued from the sale of these lands was to be distributed annually to all the school districts in the territory based on the number of students. Additionally, a county property tax of one mill was levied for the hiring of teachers. Another one to three mills was allowed in 1866 for the general operations of schools.

A major change in funding occurred in 1872 when the voted levy was introduced. Legislation authorized local trustees to ask the voters for the right to levy mills to maintain, build, purchase, or remove a building. This legislation also changed the method of appropriating funds based on the current count of school children for the next school year.

In 1883 legislation passed which authorized school trustees to issue bonds to build or provide school houses. The amount of the bonds sold could not exceed two percent according to the law. Compulsory school attendance began in 1883. This forced more children to be in school and also increased school budgets since enrollment was linked to funding.

